

Message Text

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TO SECSTATE WASHDC IMMEDIATE 4597

INFO AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

CONFIDENTIAL NEW DELHI 3724

E.O. 11652: GDS

TAGS: PFOR, IN, US

SUBJECT: ALLEGATIONS OF U.S. AID CONTRIBUTION TO A J.P. ORGANIZATION

TION

SUMMARY: IN RESPONSE TO A QUESTION HOME MINISTER B. REDDY TOLD THE LOK SABHA MARCH 10 THAT AVARD, AN ORGANIZATION HEADED BY J.P. NARAYAN, HAD RECEIVED FUNDS FROM U.S. AID AND A WEST GERMAN ORGANIZATION. HE STATED THAT THE ORGANIZATION HAD "MINUTILIZED" FUNDS AND THAT THE MATTER WAS UNDER INVESTIGATION. WHEN ASKED BY THE DCM ABOUT THE STATEMENT ON MARCH 10, MEA JOINT SECRETARY FOR THE AMERICA DIVISION TEJA SAID THAT HE WAS UNAWARE OF IT AND MADE NO COMMENT. U.S. AID FILES HERE REVEAL THAT U.S. AID PROVIDED AVARD 620,000 RUPEES DURING THE PERIOD JANUARY 10, 1966 THROUGH JUNE 30, 1968 TO SUPPORT AVARD'S RURAL MANPOWER PROGRAM IN UP. GOI APPROVAL OF THIS TYPE OF PROGRAM IS SPECIFIED IN AN EXCHANGE OF LETTERS BETWEEN THE U.S. AID DIRECTOR AND A JOINT SECRETARY IN THE MINISTRY OF FINANCE. LETTERS FROM UP STATE OFFICIALS ACKNOWLEDGE AND COMMEND PARTICIPATION OF AVARD IN THE STATE'S RURAL MANPOWER PROGRAM. U.S. AID'S FUNDING OF AVARD WAS A MATTER OF PUBLIC KNOWLEDGE. WE INTEND TO INFORM THE GOI OF THESE CONFIDENTIAL

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FACTS AND STATE THAT ANY IMPLICATION THAT THESE FUNDS WERE IM-

PROPERLY USED IS COMPLETELY UNCALLED FOR. END SUMMARY.

1. THE PRESS REPORTS THAT DURING THE MARCH 10 DEBATE IN THE LOK SABHA ON A BILL TO CONTROL THE "FLOW OF FOREIGN MONEY" INTO INDIA, HOME MINISTER BRAHAMANANDA REDDY, IN ANSWER TO A QUESTION, SAID THAT AN ORGANIZATION HEADED BY JAYAPRAKASH NARAYAN KNOWN AS AVARD (THE ASSOCIATION OF VOLUNTARY AGENCIES FOR RURAL DEVELOPMENT) HAD RECEIVED FUNDS FROM U.S. AID AND A WEST GERMAN ORGANIZATION, THE PROTESTANTS' CENTRAL AGENCY FOR DEVELOPMENT AID. THE MINISTER SAID THIS INFORMATION CAME TO LIGHT AS A RESULT OF INCOME TAX SEARCHES ON BUSINESS AND RESIDENTIAL PREMISES OF AVARD AND SOME OF ITS OFFICERS IN DELHI AND BIHAR ON FEB. 5. REDDY SAID THAT IT HAD COME TO THE GOVERNMENT'S NOTICE THAT "SOME OF THE FUNDS" OF THE ORGANIZATION HAD BEEN "MISUTILIZED." "IN WHAT MANNER AND HOW IS A MATTER OF FURTHER INVESTIGATION. THE MINISTER SAID THAT FOR SOME TIME AVARD HAD NOT BEEN SUBMITTING NECESSARY ACCOUNTS. A CPI MP REPORTEDLY TOLD THE LOK SABHA THAT THE SITUATION HAD BEEN SAVED THROUGH THE PROCLAMATION OF EMERGENCY. "OTHERWISE, I DO NOT THINK WE OR THE MINISTER WOULD HAVE BEEN HERE" DISCUSSING THE QUESTION.

2. THE DCM RAISED THE ABOVE ISSUE WITH MEA JOINT SECRETARY FOR THE AMERICA DIVISION TEJA AT DINNER MARCH 10 SAYING THAT, WHILE HE HAD NOT YET HAD A CHANCE TO CHECK THE FACTS FROM EMBASSY RECORDS, THIS WAS A MATTER WHICH SHOULD HAVE BEEN DISCUSSED AND WORKED OUT PRIVATELY. TEJA WAS COMPLETELY UNAWARE OF THE REDDY STATEMENT AND MADE NO COMMENT.

3. ALTHOUGH U.S. AID FILES ON ITS RELATIONSHIP WITH AVARD ARE INCOMPLETE, WE HAVE BEEN ABLE TO PIECE TOGETHER THE FOLLOWING: U.S. AID ENTERED INTO AN AGREEMENT WITH AVARD ON JANUARY 10, 1966 FOR THE GRANT OF RS. 265,000 TO SUPPORT A RURAL MANPOWER PROGRAM IN THE STATE OF UTTAR PRADESH FOR A FOUR-MONTH PERIOD. BY SUBSEQUENT AMENDMENTS TO THE GRANT AGREEMENT, THE GRANT WAS INCREASED TO RS. 620,000 THROUGH JUNE 30, 1968. THE RUPEES PROVIDED WERE GENERATED UNDER SECTION 402 OF THE MUTUAL SECURITY ACT OF 1954. THE ORIGINAL GRANT AGREEMENT DESCRIBES ITS PURPOSE AS: "TO SUPPORT AND SUPPLEMENT THE EFFORTS OF THE GOVERNMENT OF INDIA AND THE GOVERNMENT OF UTTAR PRADESH TO CONFIDENTIAL

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CARRY ON THE U.S. PL480, TITLE II SUPPORTED RURAL MANPOWER PROGRAM." ACCORDING TO INFORMATION HERE, THERE NEVER WAS SPECIFIC GOI APPROVAL FOR THE AVARD PROGRAM ALTHOUGH APPROVAL WAS UNDERSTOOD TO HAVE BEEN ENCOMPASSED BY AN EXCHANGE OF LETTERS BETWEEN THE DIRECTOR OF U.S. AID (HOWARD E. HOUSTON) AND N.C. SEN GUPTA, JOINT SECRETARY, MINISTRY OF FINANCE, ECONOMIC AFFAIRS DEPARTMENT OF THE GOI OF NOVEMBER 6, 1959. THIS AGREEMENT AUTHORIZED THE

TECHNICAL COOPERATION MISSION (TCM) TO USE SECTION 402 LOCAL CURRENCIES TO MAXIMIZE U.S. P'58:80-589, IN THE JOINT TECHNICAL COOPERATION PROGRAMS AND FOR ALL LOCAL TECHNICAL SUPPORT COSTS OF THE MISSION, WHICH WAS UNDERSTOOD TO INCLUDE PROGRAMS SUCH AS THAT OF AVARD. AS INTERPRETED BY AN OPINION OF THE ICA REGIONAL LEGAL ADVISOR DATED JUNE 23, 1961, THE NOVEMBER 6, 1959 AGREEMENT AUTHORIZED THE TCM TO USE THE SECTION 402 RUPEES "DIRECTLY" FOR PURPOSES ENCOMPASSED WITHIN THE SCOPE OF THE TCM BILATERAL PROGRAM WITH INDIA. THE LEGA OPINION STATES: "IT WAS UNDER THIS AGREEMENT THAT TCM HAS SUPPORTED SEMINARS, DEMONSTRATIONS AND OTHER SPECIAL ACTIVITIES." THE AVARD PROGRAM IS UNDERSTOOD BY U.S. AID STAFF WHO WERE FAMILIAR WITH IT IN 1966 TO FALL WITHIN THE CATEGORY OF "OTHER SPECIAL ACTIVITIES." A LETTER FROM ASSISTANT U.S. AID DIRECTOR FOBES TO SEN GUPTA OF APRIL 12, 1961, ACCORDING TO THE LEGAL ADVISOR'S OPINION, CONFIRMED THE UNDERSTANDING THAT THE NOVEMBER 6, 1959 AGREEMENT WAS A "CONTINUING AGREEMENT."

4. A 1967 BOOK PUBLISHED BY AVARD ON ITS RURAL MANPOWER PROGRAM IN UTTAR PRADESH INCLUDES LETTERS FROM THE U.P. STATE DEPUTY MINISTER FOR AGRICULTURE AND COMMUNITY DEVELOPMENT AND THE U.P. STATE COMMISSIONER AND SECRETARY FOR AGRICULTURAL PRODUCTION AND RURAL DEVELOPMENT WHICH RECOGNIZED THE PARTICIPATION OF AVARD IN THE RURAL MANPOWER PROGRAM AND COMMENDED AVARD FOR ITS CONTRIBUTION. THE AVARD BOOK EXPLICITLY ACKNOWLEDGES THAT U.S. AID WAS THE SOURCE OF ITS FUNDS AND PRESUMABLY THIS WAS KNOWN TO THE U.P. STATE GOVERNMENT.

5. COMMENT: ANY SUGGESTION OF U.S. AID INVOLVEMENT IN ANY IMPROPER ACTIVITIES IS ABSURD ON ITS FACE. NO U.S.
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FUNDS COULD HAVE BEEN DISBURSED AFTER JUNE 30, 1968, AND DURING THE LIFE OF THE GRANT AGREEMENT JP HAD CLEARLY REMOVED HIMSELF FROM THE POLITICAL STAGE. WHILE AVARD MAY HAVE HAD PROBLEMS IN ACCOUNTING FOR MONEY PROVIDED BY U.S. AID, AS INDICATED IN A U.S. AID AUDIT REPORT DATED APRIL 14, 1967, THIS CAN HARDLY SUPPORT AN INNUENDO THAT U.S. AID WAS BACKING OPPOSITION ACTIVITIES WHICH HAVE A BEARING ON THE POLITICAL PROBLEMS OF INDIA TODAY UNDER THE EMERGENCY.

WE INTEND TO GIVE TEJA THE ABOVE INFORMATION ABOUT THE AID GRANT TO AVARD AND STATE THAT ANY IMPLICATION THAT THIS MONEY WAS USED FOR IMPROPER PURPOSES IS CLEAGEY AND COMPLETELY UNJUSTIFIED. WE INTEND TO SAY THAT WE ASSUME THAT THE GOI WILL MAKE THIS FACT PUBLICLY KNOWN IF ANY FURTHER

PUBLIC ATTENTION IS GIVEN TO THE GRANT.

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